



**MERGANSER**  
CAPITAL MANAGEMENT

# THE MERGANSER FLASH

## FIXED INCOME INSIGHTS

AS OF AUGUST 31, 2017

### Market Commentary

#### THE ECONOMY

- The Fed minutes confirmed what the market had already determined, when the release showed a committee focused on an orderly unwind of the Fed's \$2B balance sheet over any near-term rate hikes. As a result, rates look unlikely to rise further until 2018 despite modestly stronger economic data including a positive revision to 2Q GDP. International macroeconomic data have continued to show some strength, increasing the probability of reduced QE in Europe in the near term.

#### STRUCTURED MARKETS

- CMBS supply has been heavier than expected this summer with a lull ahead of Labor Day. Deals continue to be absorbed, with some differences in perceived credit or liquidity credit driving spreads modestly wider of late. The downbeat retail news continues to pressure credit spreads on derivatives tied to earlier vintage deals with heavy retail exposure. New issue exposure to retail continues to come down, but remains over 20%. Increasing geopolitical concerns have not had an impact on CMBS, but the sector tends to react with a lag to moves seen in other sectors. The tragedy unfolding in Texas will certainly have an impact on CMBS, but it will be months before the extent of the damage is known. We expect servicer advances and insurance coverage to mitigate any interruption to bond cash flows in the short term, with idiosyncratic gaps in coverage affecting losses over the longer term, but Houston will recover.

#### CORPORATE CREDIT MARKET

- The risk of geopolitical fallout in North Korea drove the noticeable weakness in August, as markets reversed course on the consistent YTD credit spread tightening. Overall, the US IG Corporate Index leaked out 8 basis points (bps) to end at 110 bps. Higher beta sectors, such as Energy, took the brunt of the widening, while the uncharacteristic softness in Consumer Noncyclical was driven by weak Pharmaceutical earnings. M&A related issuance dominated during the unseasonably strong August primary calendar – approximately \$101B was issued during the month.

#### GOVERNMENT MARKET

- The 2-yr yield decreased slightly by 3 bps while the 5-yr, 10-yr and 30-yr yields decreased by 13 bps, 18 bps and 17 bps, respectively, for the month of August.

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#### SPREADS TO TREASURIES



#### BARCLAYS BENCHMARK DATA

	Total Return MTD
1-3 Gov/Credit	0.20%
Int. Gov/Credit	0.59%
Aggregate	0.90%
1-3 Yr US Treasury	0.20%
3-5 Yr US Treasury	0.57%
5-10 Yr US Treasury	1.21%
10-20 Yr US Treasury	2.20%
20+ Yr US Treasury	3.57%

#### SECTOR DATA FROM BARCLAYS AGGREGATE

	Total Return MTD	Excess Return* MTD	Current YTM
Corporates	0.78%	-0.62%	3.07%
Financials	0.78%	-0.30%	2.84%
Industrials	0.69%	-0.81%	3.17%
Utilities	1.55%	-0.34%	3.22%
RMBS	0.73%	-0.12%	2.70%
CMBS	1.13%	0.17%	2.50%
ABS	0.38%	0.11%	1.78%
Agencies	0.77%	0.05%	2.10%

\*Month-to-date performance of spread bearing bonds versus duration-matched Treasuries